

Message Text

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ACTION ARA-20

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 7330

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PLEASE PASS TO COMMERCE, MAJOR PRODUCTS

E.O. 11652: N/A

TAGS: ENRG, CS, EFIN

SUBJECT: COMMENT ON IDB SUMMARY APPLICATION

FOR ARENAL HYDROELECTRIC DAM AND

GENERATOR CONSTRUCTION

REF: (A) AIDTO A-13 MAY 22, 1974

(B) SAN JOSE 2116

1. AS REPORTED REFERENCE B, THE IDB SUMMARY WAS NOT RECEIVED WITH INITIAL COPY OF REFERENCE A. A DUPLICATE WAS RECEIVED JUNE 19. ACCORDING TO ICE EXECUTIVE PRESIDENT ALEX MURRAY, THIS LOAN APPLICATION HAS BEEN AMENDED TO INCREASE IDB'S PARTICIPATION TO \$51 MILLION ENTIRELY FROM OC FUNDS BUT WITH TERMS LIBERALIZED TO 30 YEARS WITH 6 YEAR GRANCE PERIOD. MURRAY CLAIMED IDB RENEGED ON ITS ORIGINAL OFFER OF \$12 MILLION FSO MONEY. THE AMENDED PROPOSAL WAS THEN AGREED UPON AS A SWEETENER FOR THE LOSS OF THIS FSO COMPONENT.

2. RE. PARAGRAPH 2 OF REF 1, WE OF COURSE, ARE NOT IN A POSITION TO UNDERTAKE A CAREFUL STUDYJP NEVERTHELESS, OUR IMPRESSION BASED UPON CONVERSATIONS WITH MURRAY AND OTHER DATA IS THAT THIS IS A SOUND PROJECT BASED ON REALISTIC APPRAISAL OF FUTURE POWER NEEDS. MURRAY CLAIMS DEMAND HAS BEEN INCREASING AT THE HIGH RATE OF 11 PERCENT PER YEAR. THIS WOULD BE FIRST STAGE OF ARENAL DEVELOPMENT, INITIALLY WITH A CAPACITY OF 135,000 KWH WITH FUTURE PLANS TO EXPAND UP TO 500,000 KHW

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AS DEMAND WARRANTS. THIS PROJECT WOULD FIT INTO NATIONAL GRID

WITH OTHER EXISTING AND PLANNED PROJECTS FINANCED BY WORLD BANK AND EXMIMBANK. WITH HIGH COST OF PETROLEUM FUEL, DEVELOPMENT OF HYDROELECTRIC RESOURCES MAKE PARTICULARLY GOOD SENSE AND INDEED MURRAY CLAIMS ICE NOW PLANNING TO ADD ADDITIONAL HYDROELECTRIC TURBINE TO CACHI INSTEAD OF GAS TURBINE FACILITY ELSEWHERE SINCE CACHI UNIT, ONCE CONSIDERED MARGINAL, IS NOW LESS EXPENSIVE THAN GAS TURBINE UNITS.

3. CONCERNING ICE'S CAPACITY TO ADMINISTER THE PROJECT, ICE HAS REPUTATION FOR SOUND, CONSERVATIVE ADMINISTRATION. REGARDING ITS TECHNICAL CAPACITY, ICE RECENTLY COMPLETED EXTREMELY DIFFICULT TUNNELING JOB AT TAPANTI. IBRD WOULD BE IN A POSITION TO GIVE ASSESSMENT OF ICE'S HANDLING OF THIS PROJECT AS WELL AS ITS ADMINISTRATION OF VARIOUS OTHER IBRD PROJECTS. WITH REGARD TO TAPANTI, THE OVERRUN WAS ABOUT TWO YEARS, HOWEVER, WE UNDERSTAND UNFORESEEN TECHNICAL PROBLEMS INVOLVING TREMENDOUS HYDRAULIC PRESSURES MADE ITS ACCOMPLISHMENT NOTABLE IN ANY CASE. MURRAY BELIEVES ICE CAN AMORTIZE THIS PROJECT WITHOUT DIFFICULTIES, BUT SAID ICE IS PREPARED TO INCREASE RATES IF NECESSARY.

4. WE ARE UNABLE TO COMMENT UPON RISK THAT MAY BE ENTAILED IN PROJECT LOCATION CLOSE TO ARENAL VOLCANO AND IN UNSTABLE SEISMIC AREA. MURRAY CLAIMS THIS ASPECT HAS BEEN AND IS STILL BEING THOROUGHLY STUDIED, AND HAD DATA ALREADY IN IDB HANDS DEMONSTRATES PROBLEM IS MANAGEABLE.

5. CONCERNING TIME TABLE, MURRAY SAID ACCESS ROADS ARE NOW BEING BUILT AND ICE WOULD UNDERTAKE CONSTRUCTION OF DIVERSION TUNNEL THIS DRY SEASON, ICE HOPES TO HAVE IDB'S APPROVAL WITHIN MONTH OR TWO. MORE OR LESS SIMULTANEOUSLY IT HOPES FINAL DESIGN WORK WILL BE COMPLETED BY SAN FRANCISCO FIRM AND THAT BIDS FOR CONSTRUCTION WILL BE SOLICITED IMMEDIATELY THEREAFTER.

6. AS DEPARTMENT IS AWARE ICE ALSO MAY MANAGE BORUCA/ALCOA PROJECT WHICH ENVISAGES CONSTRUCTION OF A HUGE EARTH FILL DAM ON TERRABA RIVER. PRACTICALLY ENTIRE OUTPUT WOULD BE SOLD TO ALCOA FOR USE IN SMELTER. THIS PROJECT STILL LIMITED OFFICIAL USE

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IN PRELIMINARY STAGES BUT COULD MOVE RAPIDLY. FEASIBILITY STUDIES HAVE BEEN COMPLETED AND ALCOA HAS UNTIL AUGUST TO DECIDE WHETHER, FROM ITS STANDPOINT, PROJECT IS FEASIBLE. ASSUMING ALCOA'S REACTION IS POSITIVE (WHICH WE THINK IS REASONABLY LIKELY) A NEW GOCR/ALCOA CONTRACT WOULD HAVE TO BE NEGOTIATED AND APPROVED BY THE ASSEMBLY. AT VERY SOONEST THIS PROCESS COULD BE COMPLETED BY MAY 1975 AND FIRST CONTRACTS COULD BE LET. OBVIOUSLY, TWO SUCH LARGE HYDROELECTRIC

PROJECTS MORE OR LESS SIMULTANEOUSLY COULD STRAIN ICE'S
MANAGERIAL TALENTS. NO FINANCIAL STRAIN ON ICE -- AT LEAST ON THE
PROJECT ITSELF -- SHOULD DERIVE FROM THE BORUCA/ALCOA
PROJECT, HOWEVER, SINCE THIS WOULD BE PART AND PARCEL
OF THE ALUMINUM DEVELOPMENT PLAN AND INDEPENDENTLY AMORTIZED
BY SALE OF ELECTRICITY TO ALCOA. IMPORTANT POINT IN ANY CASE
IS THAT ARENAL IS ABOUT READY TO GO, WHILE ALCOA/BORUCA
STILL IN "IFFY" STAGE.
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